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Ageing and work in the Netherlands

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1. Introduction

A successful partnership between government and business is essential for the development of active ageing. An effective policy designed to promote employment opportunities for older workers needs to serve the interests of both employers and workers. In business practice, therefore, improvements must be made in the variables that make end-of-career work less hard and more flexible, adaptable and productive. The following elements are important, given the weak position of older workers on the labour market: an age-conscious personnel policy, demotion, the encouragement of part-time work, flexible pay, and training and education. The Dutch polder model provides a good cultural and institutional basis for facing up to this challenge (Delsen, 2002a). This chapter discusses the experience in the Netherlands with some of these issues.

2. A Dutch fourth pension pillar miracle?

The fourth pension pillar involves carrying out productive work, whether at a specially adapted rate and/or in a specially adapted job. The pension is completely deferred, and income comprises earnings from (part-time) work for a number of years which are added to the existing three pension pillars, the cappuccino model. Since older workers can take things easier, they remain active for longer and much more balanced (Delsen and Reday-Mulvey, 1996; Delsen, Hutsebaut and Reissert, 1999). Increasing the employment rate of older people does not only have a denominator effect, because the basis for financing is broadened, but also a numerator effect, when the number of allowance recipients with a pension, disability, early retirement or unemployment benefit goes down.

The Netherlands is sometimes called the first part-time economy in the world. If the Netherlands is taken as the norm there must be considerable potential in the EU for promoting part-time work and thus for increasing the activity rate among older people (Delsen 1998). However, when it comes to the activity rate among older people (aged 55–64), the Netherlands is statistically an outlier in the European Union (EU) (see Figure 1). In 1995 the employment rate for both older men and older women was relatively low, despite the fact that the number of older men and women in part-time work as a proportion of the total number of older men and women in work was relatively high. In the same year, the proportion of older men in part-time work was 22.8 %, the highest in the EU, while the activity rate was only 39.9 %, one of the lowest in the EU. For older women, the proportion in part-time work was as much as 81.7 %, while the activity rate was only 18.0 %. The high proportion of part-time work in the 55–59 age group can be partly explained by the fact that collective agreements have reduced the working week for older workers, while for the 60–64 age group the agreements also contain gradual retirement schemes. Part-time work can shed light on some of the unemployment which is concealed in the disability and early retirement figures. Part-time work has a preventive effect: gradual retirement reduces the chance that older workers will become overburdened and offers them a way of keeping their job. Figures for the Netherlands do indeed show that part-time early retirement can considerably reduce the disability risk (Aarts and De Jong 1992), which

means not just considerable savings in disability benefits, but also an increase in the activity rate among older workers and therefore in the ratio of active to inactive people. It does also imply that completely healthy workers will want to try to take advantage of the relevant part-time early retirement scheme, which will increase the total costs of early retirement schemes. But then again, a net saving of 12.5 % will be made in disability benefits. There are also considerable productivity gains with part-time work, which again broadens the funding basis for early retirement and pensions, and if full retirement is deferred for a year or more, the savings will be even greater. Increasing the standard pensionable age, by one year, say, to age 66, would appear to be ultimately feasible. Both the financial and the material conditions must be created to allow people to stay in work for longer, i.e. for a greater number of years. The claim that part-time working reduces the supply of labour is a deep-rooted misconception among economists. The total volume of labour is the product of the number of persons in work, the number of hours worked and the number of years worked. Expanding the volume of part-time work offers workers the material conditions to remain in employment and/or to carry on working for longer. Labour market practice in the Netherlands shows that part-time working is a necessary condition in order to encourage older people to be active, but is not a sufficient condition (see Figure 1). The low employment rate of older workers is related to the long tradition of early retirement. The part-time employment rate among older workers in the Netherlands is high, while the employment rate is relatively low, due to the existing generous early retirement options that are available.

Although it is only some five years ago that the employment rate of older workers in the Netherlands was one of the lowest in the EU, in 2001, as can be seen from Table 1, the employment rate among older people (55–64 years) has caught up with the EU average. Table 1 also shows that the business cycle i.e. the boom after 1994 is an important explanation for this

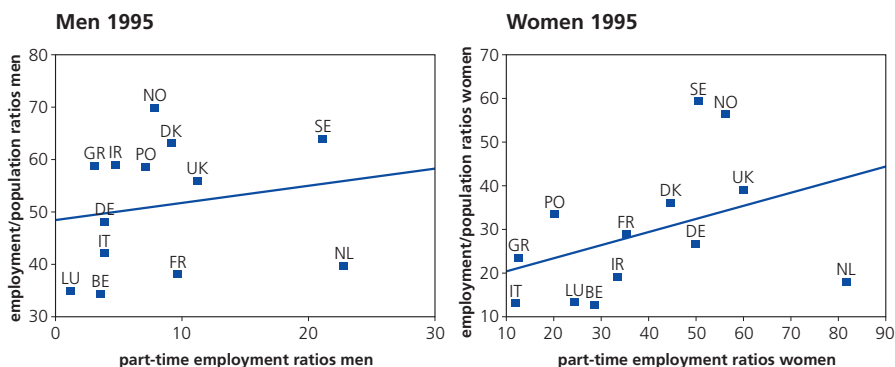


Fig. 1: Relationship between activity rates and part-time rates of older workers (55–64 years) in the European Union in 1995 by gender.

Source: calculated from OECD data

favourable development. A tight(ening) labour market seems essential for older people to be active in the labour market. However, it may be a necessary but not a sufficient condition (Delsen, 2002b).

	1990	1994	1995	1996	1997	1998	1999	2000	2001
NL	29.7	29.0	29.4	30.5	31.7	33.0	35.3	37.9	39.3
EU	38.6	–	36.0	36.6	36.9	37.1	37.9	38.7	39.2

Table 1: Employment rate among older people (age 55–64) 1990–2001.
Source: OECD, Employment Outlook, Organisation for Economic Co-operation and Development, Paris, various editions

The Dutch government and the social partners regard increasing the activity rate of older workers as one of the main socio-economic objectives. The government and the social partners each have their own responsibilities in this respect. Since the early 1990s it has been government policy to increase the activity rate among older workers. The government's input is to convert the choice between working and not working into a choice between a more gradual reduction in work and definitive retirement at a later age. The instruments used have included the conversion of pay-as-you-go early retirement (*Vrijwillige Vervroegde Uittreding, VUT*) schemes into funded flexible pension schemes, thus reducing the burden on the younger generation. The new pension schemes allow to carry on working part-time. Early retirement remains an option, but people have to pay for this individually. However, the key age is 60 rather than 65, which is the statutory retirement age in the Netherlands. This is, to a certain extent, at odds with the government policy of promoting the activity rate of older people. In principle, all persons aged under 60 who are fit to work should have employment. Those aged 60 and over are considered to retire according to individual preference, making a deliberate cost-benefit comparison between (carrying on) working, not working or retiring. Other instruments are the change in the pension base from final pay to average pay, and promoting an age-conscious personnel policy. The government's role in all of this has mainly been to lay down conditions. The number of workers belonging to an average-pay scheme rose from 23 % in 1995 to 32 % at the beginning of 1999. The number of persons receiving a pay-as-you-go financed early retirement benefit dropped from 151,800 in 1995 to 113,100 in 2000. In the same period the number of prepensioners receiving a funded actuarially fair pension increased from 23,100 to 65,800. For the employers this implies less costs and the employees have more choices.

Reversing the incentives in early retirement may be a necessary condition, but not a sufficient condition for active ageing. Offering workers greater choice and thus greater sovereignty can result in adverse selection on the labour market. In particular, workers who are well-off and highly productive are able and willing to opt for early retirement. The less well-off and less productive workers will choose, or be financially forced, to carry on working for longer, perhaps even too long. Lower paid will have less opportunity to choose; certainly when the conditions are increasingly individualised and made actuarially fair. The growth in the number of female workers and in the number of households with two incomes will increase the demand to stop

work, which will also become possible due to private schemes. Thus, the financial scope to retire early increases. This may mean that despite the fact that the unemployment and disability benefit rules and the rules in (company-based) retirement schemes have been tightened up, the activity rate among older men will not increase by much. Also more complete careers and higher reference wages offer greater financial scope for early retirement. Public and private pension schemes act like substitutes. In fact, reduction of public pension provisions may be overcompensated by private provisions and savings.

3. Age-conscious personnel management

The wages, training and recruitment policies pursued by companies are of crucial importance for the employability of older workers and thus their employment and earning ability. If policy changes are to be effective – and make a genuine contribution to the fourth pillar – then personnel policy will also need to be adapted. An age-conscious personnel policy is designed to help all workers and aims to prevent relative ageing. To keep older workers motivated and productive training should not end at a certain age, but should carry on until the end of their career. More incentives from the government may be needed here. Older workers tend to be more productive if their duties are adapted or if they change jobs regularly. Practice has shown that age is a poor criterion for deciding whether or not a worker qualifies for training. Older people must not be seen as a homogeneous group. There is no such thing as “*the elderly*”! The only thing they have in common is that they have reached a certain age. The ageing and rejuvenation of the labour force in the Netherlands and the effects of internationalisation have brought older workers into the spotlight in personnel and organisational policy.

In the Netherlands after age 35–40, workers are given less and less attention. They no longer have job assessment interviews and few opportunities for training. This is what causes the problem of over-specialisation or “concentration of experience”, partly because the few changes of function encourage workers to become set in their ways and less alert. This concentration of experience means that the quantity of experience increases but the variety of experience decreases with age. Work experience is not enough to compensate for the lack of (further) training. The organisation uses older workers only to carry out very specific tasks, and this then becomes a self-fulfilling prophecy. Depriving older workers of opportunities to develop automatically leads to problems of employability, flexibility and productivity. The employability problems increase with age and often lead to early departure from employment.

Training can play an important part in improving the position of older workers on the labour market, since it not only keeps knowledge up to standard, but also promotes mobility. Training reduces the discrepancy between remuneration and productivity. The age-training participation relation is hump shaped (see Table 2). Older workers take part in training courses less often than younger workers. The good news is that the attendance at courses has increased in recent years. The percentage of those aged 50 and over with a job that is involved in training in the Netherlands is above the EU average, with the Netherlands scoring higher than Germany here. Education and training can be partly financed from savings in early retirement spending.

	1993–1994	1995–1996	1997–1998
Age			
16–24	29.0	30.7	29.9
25–34	34.8	41.2	43.6
35–44	26.3	33.8	41.2
45–54	18.4	28.0	35.9
55–64	5.0	20.7	23.7

Table 2: Participation of employed people in training courses in the Netherlands, 1993–1998, by age.

Source: OSA (1999) Trendrapport Aanbod van Arbeid 1999, The Hague: Institute for Labour Studies

Those who have taken early retirement in the Dutch healthcare sector can take jobs in this sector from 2001 without incurring a reduction in their early retirement payment or pension. The PGGM, the pension fund in the healthcare sector, decided on this – in anticipation of changes to the collective agreement – because of the shortage of manpower. The arrangement means that those on early retirement could earn up to 180 % of their final pay. The pay-as-you-go system of financing means that active workers are paying for their re-employed older colleagues to receive extra, which also helps employers who are unable to find staff. It also produces steeper pay-age profiles, particularly at the end of the working life.

Practice in the Netherlands shows that wages do increase with age, but the productivity curve peaks at around age 45. According to the contract theory the wages of younger workers are below their productivity and those of older workers are above their productivity (See Delsen, 2002b). Wages go up periodically; younger workers subsidise the higher wages of older workers. In theory this does not have any cost implications for employers, but does generate commitment from both younger and older workers. Both will work hard, either because they have a lot to gain from long-term employment with the firm (younger workers), or because they have a lot to lose if they are made redundant (older workers). This generates higher productivity and greater loyalty to the company. The implicit contract also helps to overcome the ‘hold-up’ problem and encourages investment in company-specific human capital¹. However, in future seniority-based pay will increasingly lead to cost problems if the average age of the workforce increases as a result of ageing and dejuvenation, and if the number of

1 The hold-up problem concerns the relationship between employer and worker in the same company. As a result of uncertainty about the distribution of any future surplus, both employer and worker defer their investment, since they expect future wage negotiations on the surplus generated by company-specific investment to deprive them of part of the profits, because contracts or agreements are incomplete. This means that less is invested in specific training than is socially desirable.

expensive older workers in the workforce expands in relative terms. To keep costs down they are then made redundant, and if this does not happen because of a shortage of labour, then profitability drops. This costs jobs in the long run as well. It also explains why Dutch employers prefer to make older workers redundant first.

4. Outlook

The Dutch government is targeting a permanent increase in the employment rate among older people – the 55–64 generation – from around 40 % now to over 50 % in 2030. It is a typical feature of the Dutch 'polder model' that the government and the social partners are involved in the preparation, formulation and implementation of policy (Delsen, 2002a). The Dutch negotiating model (*overlegmodel*) with its emphasis on seeking a balance between legislation, self-regulation by the social partners and (tax) incentives from the government seems to provide a suitable framework to achieve this aim.

In order to encourage employers to take on older workers, from 1 January 2001, the target group of the scheme of reduced social security contributions for the long-term unemployed (*Vermindering Langdurige Werklozen – VLW*) has been broadened for older people. The employer who retains an older worker is exempt from paying disability (WAO) and unemployment (WW) insurance premiums. From 2002 onwards a number of fiscal measures will be introduced to keep older workers in employment. The 58-years-old employee receives a tax credit of 227 EUR, increasing to 681 EUR for those 65 years of age. The fiscal support for early retirement (VUT) schemes will be abolished in 2002. On the other hand, the planned obligation of unemployed older workers of 55 years and over, from 1 July 2002 onwards, to look for work has been postponed.

To discourage the laying off of older workers, the government wants to introduce an own-risk element in unemployment insurance (WW) for employers who dismiss workers aged 57.5 and over. This risk would not apply to workers recruited after their 50th birthday. However, the planned premium differentiation in unemployment insurance will do older workers more harm than good. Premium differentiation makes it attractive to invest in existing older workers instead of replacing them with new ones. It encourages internal flexibility. Older workers are laid off less readily, but unemployed older workers are also taken on less readily. The solution to the inactivity problem, which in the Netherlands centres on older people and the long-term unemployed, lies in an active reintegration policy.

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